

**PUBLIC DISCLOSURE**

July 27, 1998

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Potomac Valley Bank

05541140

4 North Main Street

Petersburg, West Virginia 26847-1079

**Federal Reserve Bank of Richmond**

**P. O. Box 27622**

**Richmond, Virginia 23261**

<p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.</p>
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## COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

### **GENERAL INFORMATION**

The Community Reinvestment Act (CRA) requires each Federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of Potomac Valley Bank, Petersburg, West Virginia, prepared by The Federal Reserve Bank of Richmond, the institution's supervisory agency, as of July 27, 1998. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A of 12 CFR Part 228.

**INSTITUTION'S CRA RATING:** This institution is rated Satisfactory.

The bank's loan-to-deposit ratio is considered reasonable given its financial capacity, location, and economic conditions. A substantial majority of loans sampled during the examination were provided to residents of the assessment area. Furthermore, the institution's lending to low- and moderate-income borrowers appears responsive to the proportion of such families residing in the assessment area. All of the geographies within the assessment area are middle-income. Therefore, an analysis of the geographic distribution of the bank's lending was not considered in evaluating the institution's CRA performance.

## DESCRIPTION OF INSTITUTION

Potomac Valley Bank operates two full-service branches within the Town of Petersburg in Grant County, West Virginia. As of June 30, 1998, Potomac Valley Bank had total assets of \$96 million, of which 52% were loans. Various loan and deposit products are available through the institution including loans for consumer, residential mortgage, home improvement, business, and agricultural purposes. The loan portfolio as of June 30, 1998, was comprised of the following: 70% secured by real estate (primarily consumer), 22% consumer, 5% commercial/agricultural, and 3% other. Based on the number of loans extended during the previous six months, consumer (secured and unsecured) and residential real estate loans were identified as the principle credit products offered by the bank. Potomac Valley Bank received a satisfactory CRA rating at its previous evaluation.

## DESCRIPTION OF ASSESSMENT AREA

The institution's assessment area consists of all of Grant County and two block numbering areas (BNAs) in Hardy County (9702 and 9703). Grant and Hardy Counties are located in the eastern panhandle of the state near the Virginia state line. The population of the assessment area is 18,097 according to 1990 census data, and all five BNAs located within the bank's market are considered middle-income. The 1997 HUD median-family income for nonmetropolitan areas of West Virginia is \$27,600.

The following table provides assessment area demographics by income level of families.

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
Percentage of Area Families By Income Level	17%	17%	20%	46%	100%

The local economy is primarily dependent on the timber and poultry industries with additional employment opportunities provided by coal mining and agriculture. Tourism through area ski resorts, national parks, and other recreational sites also provides jobs. Major employers in the area are Allegheny Wood Products and Advantage Foods. Unemployment rates as of June 1998 for Grant and Hardy Counties are 8% and 3%, respectively. The jobless rate for the State of West Virginia was 6.5% during this period.

A local government official was contacted to further assist in evaluating the bank's CRA performance. The contact indicated that several local businesses have recently closed or reduced operations, causing high unemployment and reduced loan demand.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### LOAN-TO-DEPOSIT RATIO

For a six-quarter period ending June 30, 1998, the quarterly average loan-to-deposit ratio for all banks headquartered in rural areas of West Virginia and of similar asset size to Potomac Valley Bank ranged from 66% to 73%. The bank's average loan-to-deposit ratio for the previous six quarters is 60% and is considered reasonable given the institution's financial capacity, size, and current economic conditions.

## LENDING IN ASSESSMENT AREA

To determine the institution's volume of lending within the assessment area, a sample of 109 of the 238 consumer and 53 of the 73 real estate loans recently extended was analyzed. The lending distribution is illustrated by the following table.

Comparison of Credit Extended Inside and Outside of Assessment Area

	Inside Assessment Area	Outside Assessment Area	Total
Total Number of Loans	145	17	162
Percentage of Total Loans	90%	10%	100%
Total Amount of Loans (000's)	\$2,314	\$653	\$2,967
Percentage of Total Amount	78%	22%	100%

As illustrated above, a substantial majority of the number and dollar amounts of the sampled loans were provided to residents of the assessment area.

## LENDING TO BORROWERS OF DIFFERENT INCOMES

The following chart illustrates the distribution of the 101 consumer loans extended within the assessment area by income level of the borrower.

Distribution of Loans by Income Level of Borrower

### Consumer Loans

	Low-Income	Moderate- Income	Middle- Income	Upper- Income	Total
Total Number of Loans	29	32	21	19	101
Percentage of Total Loans	29%	32%	21%	18%	100%
Total Amount of Loans (000's)	\$161	\$238	\$139	\$197	\$735
Percentage of Total Amount	22%	32%	19%	27%	100%

When compared to the distribution of area families, the percentage of consumer loans extended to low- and moderate-income families (61%) substantially exceeds the proportion of such families in the community (34%). Furthermore, 54% of the dollar amounts of the loans were extended to these borrowers.

The sample of 44 real estate loans extended within the assessment area was also reviewed to determine lending by borrower income level. These loans consist of consumer refinances, purchases, and home improvement loans secured by one-to-four family dwellings. The following chart shows the distribution of these loans by borrower income level.

Real Estate Loans

	Low- Income	Moderate- Income	Middle- Income	Upper- Income	Total
<b>Total Number of Loans</b>	3	10	14	17	44
<b>Percentage of Total Loans</b>	7%	23%	32%	38%	100%
<b>Total Amount of Loans (000's)</b>	\$54	\$315	\$534	\$676	\$1,579
<b>Percentage of Total Amount</b>	3%	20%	34%	43%	100%

The percentage of real estate loans provided to low-income borrowers (7%) is lower than the proportion of such families (17%) within the assessment area. Recent unemployment rates in Grant County reaching as high as 12% in March 1998, along with a 12% poverty rate in the assessment area, suggest that effective loan demand may be low for these types of loans. Lending to moderate-income borrowers (23%) exceeds the proportion of moderate-income families (17%) within the local community. Overall, the distribution of consumer and real estate loans to borrowers of different incomes is considered reasonable relative to the estimated demand for these types of loans using area demographics as a proxy.

**GEOGRAPHIC DISTRIBUTION OF LOANS**

All five of the block numbering areas in the assessment area are considered middle-income. Therefore, an analysis of the geographic distribution of the bank's lending was not conducted.

**COMPLIANCE WITH ANTIDISCRIMINATION LAWS AND REGULATIONS**

No credit practices inconsistent with the substantive provisions of the fair housing and fair lending laws were identified. Technical violations of the Equal Credit Opportunity Act's Regulation B were noted. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending activities.